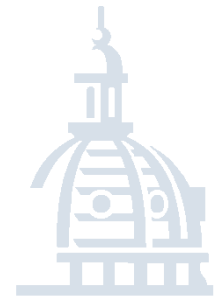


# Fiscal Note

*Fiscal Services Division*



---

**SF 166** – Fantasy Sports (LSB1188SV.2)

Analyst: Christin Mechler (Phone: 515-281-6561) ([christin.mechler@legis.iowa.gov](mailto:christin.mechler@legis.iowa.gov))

Fiscal Note Version – As amended by House State Government Committee amendment **H-8102**

---

## **Description**

**Senate File 166**, as amended by House State Government Committee amendment **H-8102**, allows for the addition of “fantasy sports contests” and “Internet fantasy sports contests” as legally recognized forms of wagering under Iowa Code section **99F.3**. “*Fantasy sports contests*” are defined as any fantasy or simulated sports contest in which participants are aware of the prizes and awards in advance of the contest. “*Internet fantasy sports contests*” are defined as a contest in which a person may establish and deposit money into an online account and use the balance for entering a fantasy sports contest by utilizing electronic means of communication. The proposed amendment imposes a 7.5% tax on the total entry fees and charges claimed by the third-party Internet fantasy sports service provider after the payout of all prizes and winnings from the total adjusted gross revenues. Amendment H-8102 creates a Class D felony for willfully failing to comply with requirements, resulting in the individual being barred for life from Internet fantasy sports contests. **SF 166**, as amended by **H-8102**, takes effect on July 1, 2016, with the exception of the section establishing the setoff procedure as performed by the Department of Administrative Services (DAS). This section becomes effective on July 1, 2018.

## **Background**

The state of Iowa permits individuals age 21 or older to take part in gambling games and related activities. Each gambling licensee must collect debts owed to the state from persons participating in gambling activity. Under current law, a single occurrence win equal to or greater than \$1,200 is considered a taxable event and subject to outstanding debt collection. The amount of the debt constitutes a valid lien against the winnings of the person and is collected from the winnings. Each licensee is provided electronic access to the names of persons indebted to the state for purposes of this setoff procedure. The setoff procedure is conducted by the DAS pursuant to Iowa Code section **8A.504**. The DAS is also allowed to charge a \$7 administrative fee for the setoff procedure. Delinquent debt and past due taxes are deposited in the General Fund in the fiscal year collected.

The Internet fantasy sports contest service provider is required to disclose the single number of entries a participant may submit to each contest, and must contract with a third party for an annual, independent audit. Furthermore, employees of an Internet fantasy sports contest service provider, or relatives living in the same household, are prohibited from engaging in any Internet fantasy sports contest with a cash prize exceeding \$5.

## **Assumptions**

### **General Assumptions:**

- The Fantasy Sports Trade Association (FSTA) estimates 300,000 Iowans per year will play daily fantasy sports through an Internet fantasy sports contest service provider. This is approximately 10.0% of the total Iowa population (3.1 million).
- Using national data provided by the FSTA, an individual participant 18 years or older spends an average of approximately \$257 on Internet fantasy sports contests annually.<sup>1</sup>

---

<sup>1</sup> <http://fsta.org/research/industry-demographics/>

- Total annual gross receipts as defined by the Internet fantasy sports contest service provider are comprised of all entry fees and charges collected annually. On average, 88.0% to 90.0% of this revenue is paid out as prizes and winnings. The remaining 10.0% to 12.0% of revenue is retained by the Internet fantasy sports contest provider.
- The moneys received after taxing the remainder of revenues held by the contest service provider will be adjusted by a residential percentage (multiplier) based on the total number of Iowa residents participating in the wagering contest.
- The proposed amendment requires all tax revenue received from the participation in Internet fantasy sports contests and adjusted for resident percentage to be deposited in the Rebuild Iowa Infrastructure Fund (RIIF).
- The Racing and Gaming Commission (IRGC) will charge a \$500 fee per license to conduct Internet fantasy sports contests. The IRGC will retain the full fee as paid by the licensee.
- The Department of Public Safety (DPS) charges a deposit fee to any company pursuing a gambling license in the state of Iowa. This deposit fee covers travel and accommodations for an investigator, and may range up to \$5,000, depending on the location of the applicant. An Internet fantasy sports contest provider will be subject to the same investigation.

#### **Correctional Impact Assumptions:**

- The amendment establishes a Class D felony for the failure to willfully comply with the requirements set forth in the bill. The average state cost for one Class D felony conviction ranges from \$6,300 to \$12,000.
- This change will become effective July 1, 2016. A lag effect of six months is assumed from the law's effective date to the date of first entry of affected offenders into the correctional system.
- Charge, conviction, and sentencing patterns and trends are not expected to change over the projection period.
- Prisoner length of stay, revocation rates, and other corrections policies and practices are not expected to change over the projection period.

#### **Setoff Procedure Assumptions:**

- The amendment specifies that setoff procedures begin July 1, 2018.
- According to the Department of Revenue (DOR), from FY 2011 through FY 2015, the average number of taxpayers that are billed for unpaid individual income tax in each fiscal year is 102,000. Of these, after the year of billing, approximately 57.5% of the billed amount remains delinquent.
- From FY 2011 through FY 2015, the median delinquent amount owed by all billed individual income taxpayers is \$310. Multiplying the estimated number of delinquent taxpayers, or 58,694 individuals, by the estimated median amount owed yields \$18.2 million that will be subject to setoff collections in FY 2016. This amount is adjusted for future years using Moody's Analytics projections for the Consumer Price Index and is assumed to be \$19.6 million in FY 2019.
- A total of 10.0% of Iowans that participate in Internet fantasy sports will experience winnings of at least \$1,200 in a single occurrence annually. For FY 2019, the amount estimated to be collected through the proposed procedures is \$254,000.
- The DAS may incur some programming costs to collect these winnings. Those costs have not been estimated.

#### **Summary of Impacts**

**Correctional Impact:** Under provisions of the amendment, offenders will be subject to a Class D felony. The correctional impact cannot be estimated at this time, as it is uncertain how many offenders will be convicted under the amendment. The LSA [Correctional Impact Statements Memo](#) dated February 18, 2016, contains additional information.

**Minority Impact:** The minority impact is anticipated to be minimal. The LSA [Minority Impact Statements Memo](#) dated January 26, 2016, contains additional information.

### **Fiscal Impact**

**Inspections and Appeals Operating Fund:** According to the Department of Inspections and Appeals (DIA), the Racing and Gaming Commission (IRGC) will need to hire an additional FTE position to assist in regulating Internet fantasy sports gaming activity. The Department estimates the hiring and training of this individual will cost approximately \$108,000. Furthermore, the IRGC will also collect \$500 from each approved licensee. Receipts from licensing fees cannot be estimated at this time, as it is uncertain how many Internet fantasy sports contest service providers will show interest in being licensed in the state.

**Department of Public Safety Operating Fund:** According to the Department of Public Safety (DPS), currently existing resources will be used to complete any background investigations performed on potential Internet fantasy sports contest service providers applying for a license in the state of Iowa. However, should the number of background investigations increase significantly, additional staff may be needed to assist with the growing workload.

**Rebuild Iowa Infrastructure Fund (RIIF):** It is difficult to estimate the total impact that the legalization of Internet fantasy sports will have on the budget of the RIIF. The following fiscal impact reflects the minimum and maximum impact based on the data available at this time.

- **Minimum Impact:** In calendar year 2014, participants in a similarly populated state paid \$4.4 million in entry fees and charges to Internet fantasy sports contest service providers.<sup>2</sup> Of this amount, approximately \$4.0 million will be used for cash prizes and winnings payouts.<sup>3</sup> After the payout of all cash prizes and winnings, adjusted gross receipts for the service provider will equal \$440,000, or approximately 10.0% of all entry fees. [SF 166](#), as amended, will impose a 7.5% tax on the remainder of the adjusted gross receipts, \$440,000, and result in an estimated total tax revenue of \$33,000 to be deposited in the RIIF.
- **Maximum Impact:** According to the FSTA, in calendar year 2015, the average individual participant of an Internet fantasy sports contest spent a total of \$257 on daily fantasy sports games.<sup>4</sup> Based on the FSTA assumption that 300,000 Iowans will participate in daily fantasy sports games annually, if each of these participants were to spend the average amount of \$257 annually, the Internet fantasy sports contest service provider would receive an estimated total of \$77.1 million in total entry fees and charges. Of this amount, approximately \$69.4 million will be paid out in cash prizes, resulting in approximately \$7.7 million in adjusted gross receipts for the Internet fantasy sports contest service provider. The 7.5% tax will generate an estimated \$578,000 in tax revenue annually for deposit in the RIIF.

### **General Fund Impact from Setoff Procedures**

The fiscal impact of this provision will result in additional revenue to the General Fund of an estimated \$250,000 per year beginning in FY 2019. This impact will increase slightly in subsequent years as a result of estimated inflation.

---

<sup>2</sup> Data for the full 2015 calendar year was not available for the referenced similar-sized state at the date of this memorandum.

<sup>3</sup> Due to the proprietary nature of the information provided by the industry, the name of the similar-sized state is unavailable.

<sup>4</sup> <http://fsti.org/research/industry-demographics/>: This data range includes participants age 18 and older. Specific data for participants age 21 or older was not available.

## **Sources**

Fantasy Sports Trade Association (FSTA)  
Department of Administrative Services (DAS)  
Department of Inspections and Appeals (DIA)  
Racing and Gaming Commission (IRGC)  
Department of Human Rights (DHR)  
Department of Public Safety (DPS)  
Department of Revenue (DOR)  
Legislative Service Agency (LSA)

/s/ Holly M. Lyons

---

March 22, 2016

---

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

---